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# UNITED NATIONS POPULATION FUND

## FOLLOW-UP TO THE REPORT OF THE UNITED NATIONS BOARD OF AUDITORS FOR 2004-2005: STATUS OF IMPLEMENTATION OF RECOMMENDATIONS

Report of the Executive Director

*Summary*

Pursuant to decision 97/2 of the Executive Board, the Executive Director wishes to bring to the attention of the Board a progress report on the implementation of the recommendations of the United Nations Board of Auditors for UNFPA for the biennium that ended 31 December 2005 (A/61/5/Add.7).

The present document provides an updated summary of further actions taken by UNFPA to follow up on the recommendations of the Board of Auditors as contained in document A/61/5/Add.7, noted above. A separate annex, available on the website of the Executive Board secretariat (www.unfpa.org/exbrd), provides details of the audit recommendations and the status of their implementation. UNFPA also addressed audit issues in its report on internal audit and oversight activities in 2005 (DP/FPA/2006/4), which it submitted to the annual session 2006 of the Executive Board.

In accordance with Executive Board decision 2005/8, this report indicates the priority accorded to each of the audit recommendations. As of 15 October 2006, UNFPA had implemented, or was in the process of implementing, all 42 recommendations of the Board of Auditors.

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# I. INTRODUCTION

1. Pursuant to decision 97/2 of the Executive Board, the Executive Director wishes to bring to the attention of the Executive Board a progress report on the implementation of the recommendations of the United Nations Board of Auditors for UNFPA, for the biennium that ended 31 December 2005 (A/61/5/Add.7). In document A/61/350, the Advisory Committee on Administrative and Budgetary Questions reviewed the report of the Board of Auditors and the corresponding report of the Secretary-General (A/61/214/Add.1).

2. This report provides an update of further actions taken by UNFPA to follow up on the recommendations of the United Nations Board of Auditors as contained in document A/61/5/Add.7, noted above. UNFPA also addressed audit issues in its report on internal audit and oversight activities in 2005 (DP/FPA/2006/4), submitted to the annual session 2006 of the Executive Board.

3. In accordance with Executive Board decision 2005/8, this report also indicates the priority accorded to each recommendation. The report is organized as follows:

(I) Introduction
(II) Status of implementation of the audit recommendations (This section provides details of the actions taken by UNFPA to address the audit recommendations of the United Nations Board of Auditors.)
(III) Conclusion
(IV) Recommendation.

4. The paragraph numbers cited in the present document correspond to those contained in the report of the United Nations Board of Auditors (A/61/5/Add.7).

# II. STATUS OF IMPLEMENTATION OF THE AUDIT RECOMMENDATIONS

5. The Executive Director is pleased to report that UNFPA has implemented, or is in the process of implementing, all 42 recommendations of the United Nations Board of Auditors. There is no recommendation that has not been implemented.

6. In line with the report to the sixty-first session of the General Assembly on the implementation of the recommendations of the Board of Auditors on the financial statements of the United Nations funds and programmes for the financial period that ended 31 December 2005 (A/61/214/Add.1), the table below provides a summary of the implementation of the recommendations by area of responsibility. It also indicates the priority given to each of the recommendations.

Implementation status of recommendations by area of responsibility

| | | | | Under implementation | | Priority | | |
|---|---|---|---|---|---|---|---|---|
| Division/country office | Number of recommendations | Not implemented | Fully implemented | On-going | Target date set | High | Medium | Low |
| Division for Management Services | 19 | | 4 | 7 | 8 | 7 | 11 | 1 |
| Division for Oversight Services | 6 | | 1 | 1 | 4 | 4 | 1 | 1 |
| Division for Human Resources | 8 | | 2 | | 6 | 2 | 5 | 1 |
| Strategic Planning Office | 3 | | | | 3 | | 3 | |
| Information, Executive Board, and Resource Mobilization Division | 1 | | | | 1 | 1 | | |
| All divisions/ country offices | 5 | | 2 | 2 | 1 | 1 | 4 | |
| Totals | 42 | | 9 | 10 | 23 | 15 | 24 | 3 |

7. Please note that in the above table, in the column entitled 'on-going, under implementation', no target date can be set for the implementation of these recommendations because of their ongoing nature. To strengthen the analysis, UNFPA grouped the recommendations by the risk categories defined in document DP/FPA/2006/4 (see paragraph 2). The breakdown of the recommendations made by the Board of Auditors between the risk categories used by UNFPA is as follows: external risk; people risk; process risk; relationship risk; and technology and systems risk. The paragraphs that follow summarize the action taken by UNFPA to address the recommendations in each risk category.

A. External risk

8. This group includes recommendations relating to services provided by external parties and deals with risk factors for which UNFPA has little leverage. There are three recommendations under this group: two recommendations are of high priority (paragraphs 27 and 29) and one is of low-priority (paragraph 120). UNFPA has implemented two high-priority recommendations and has initiated implementation of the third recommendation.



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9. Regarding the recommendation for UNDP to prepare monthly reconciliations of bank accounts maintained on behalf of UNFPA, UNFPA has revised its arrangement with UNDP so that UNDP will perform monthly cashbook-to-bank reconciliations and quarterly general ledger-to-bank reconciliations (paragraph 27). UNFPA is reviewing the document on sustainable procurement prepared by the United Nations Environment Programme and the UNDP Inter-Agency Procurement Services Office to identify and implement an environmental strategy for suppliers (paragraph 120). Regarding the discrepancy between the UNDP and UNFPA records, UNFPA has shared with UNDP the information necessary to reconcile the difference and is awaiting the UNDP response (paragraph 29).

B. People risk

10. This group includes recommendations relating to personnel succession planning, the contractual arrangements of temporary personnel, staff performance appraisal, training, leave administration and the reporting of fraud.

11. There are 10 recommendations under this group: two recommendations are of high priority (paragraphs 188 and 192); seven recommendations are of medium priority (paragraphs 156, 164, 169, 174, 177, 190 and 203); and one recommendation is of low priority (paragraph 183). UNFPA has implemented one high-priority recommendation and two medium-priority recommendations (paragraphs 164, 169 and 188). Implementation of the other recommendations is under way.

12. UNFPA is training leave monitors on leave policies and practices. UNFPA is also providing individual training to leave monitors when discrepancies in the leave records are identified (paragraph 188). UNFPA is pleased to report that it will implement in 2007 the Atlas on-line recording of staff leave (paragraph 192). Regarding training on Atlas software, UNFPA is systematically incorporating such training in various training sessions targeting different groups of staff (paragraph 177).

13. The Division for Human Resources has developed an on-line reporting tool to facilitate country-office reporting on special service agreements (paragraph 169). With regard to the performance appraisal and development system, UNFPA is making efforts, through frequent reminders to staff, to ensure that country offices and headquarters divisions adhere to the time frame. In 2006, UNFPA carried out its first midyear review of performance using the existing software (paragraph 174). UNFPA will ensure that supervisors and managers prepare workplans and exercise flexibility so that staff members do not lose their leave entitlements (paragraph 190). Regarding contractual arrangements for temporary personnel, on 5 July 2006, the Division for Human Resources sent a reminder to country offices, divisions and units to ensure that they submit evaluation reports and time sheets prior to processing payments (paragraph 164).

14. The reporting of fraud is included on the monthly financial review checklist prepared by the Finance Branch for use by country offices. UNFPA informed staff members of its zero-tolerance policy towards fraud and other unethical behaviour and established an on-line whistle-blower hotline that allows both staff and the general public to anonymously report any offences involving UNFPA. In October 2006, UNFPA initiated a fraud-awareness programme. UNFPA will organize workshops on this programme at headquarters and in country offices during the first half of 2007 (paragraph 203).

15. With regard to succession planning, UNFPA issued a rotation policy, re-evaluated the post profiles of representatives and deputy representatives, carried out competency-based recruitment drives and created staff rosters (paragraph 156).

16. The Division for Human Resources reports monthly to senior management on gender balance in UNFPA and identifies qualified women in the recruitment process. Recent achievements include an increased number of women representatives – from 36 per cent in December 2004 to 43 per cent in August 2006 (paragraph 183).

C. Process risk

17. This group includes recommendations related to the funding of posts, procurement activities and assets, staff benefits, reporting, audit charter and coverage, and monitoring the implementation of audit recommendations.

18. There are 18 recommendations in this group: six recommendations are of a high priority (paragraphs 89, 105, 113, 132, 142 and 144), and 12 recommendations are of a medium priority (paragraphs 32, 90, 94, 100, 103, 110, 118, 126, 128, 150, 198 and 201). UNFPA has implemented two high-priority recommendations (paragraphs 105 and 142). The implementation of the other recommendations is under way.

19. UNFPA has set up a post-establishment committee to review and approve the creation and extension of programme-funded posts at headquarters. The purpose of this committee is to establish a check-and-balance mechanism that will enable UNFPA to better monitor and regulate the creation of programme-funded posts. The Division for Human Resources is also drafting a staffing policy that will specify the contract modalities available and when to use them. The post-establishment committee has strengthened the monitoring of programme posts at headquarters (paragraphs 89 and 90).

20. The Audit Advisory Committee met on 11 October 2006 and adopted the charter of the Division for Oversight Services (paragraph 142). UNFPA plans to increase the capacity of the Division for Oversight Services in the next biennial support budget by hiring one auditor who is specialized in information systems and one investigator, in order to review financial data (paragraph 144).

21. At present, UNFPA has no gift policy, but is in the process of developing such a policy (paragraph 113). Regarding the outstanding balances of education grants, UNFPA has settled all education grant balances and is reviewing Atlas technical problems (paragraph 32). With regard to tracking payments, the monthly bank reconciliation and a more structured consultation process with UNDP should minimize errors (paragraph 103).

22. UNFPA has further strengthened procurement processes. For example, the Procurement Services Section issued administrative instructions on contract review committee submission, third-party procurement and procurement planning, and reminded country offices of the importance of adhering to procurement procedures. Procurement procedures were also key themes in the regional procurement training workshops conducted in 2006, where UNFPA requested country offices to present their procurement plans. The introduction of e-procurement, which began in July 2006, will further facilitate compliance and procurement planning (paragraphs 105 and 118).

23. In November 2005 and October 2006, UNFPA revised its procurement manual. One element of internal control that UNFPA strengthened through this revision was the new requirement that calls for country office procurement between $30,000 and $100,000 to be submitted to the local contracts review committee. In addition, in March 2006, UNFPA developed an internal control framework to assist

country offices in implementing effective internal controls, particularly for safeguarding the assets of the organization. UNFPA will update this framework in early 2007 with additional internal control elements.

24. UNFPA has advised staff from the Procurement Services Section and the country offices to close open purchase orders and has also taken action to review and close old purchase orders (paragraph 94). In addition, UNFPA has instructed the regional staff members of the Procurement Services Section to monitor physical receipt completion. The introduction of the order tracking system greatly facilitates this process. UNFPA has reminded country offices to run Atlas reports, listing potential assets (paragraph 100). The Atlas software has been customized to improve internal controls for purchase orders for items above $1,000 (paragraph 201).

25. The new policies and procedures on asset management state that UNFPA requires an annual physical verification of nonexpendable equipment in each office. Atlas exception reports have been created and will be regularly generated by the Procurement Facilities Management Branch in order to monitor adjustments and identify possible problems in country offices. UNFPA has reduced from 15 to 6 the number of country offices with differences between the confirmed balances and the asset registers. UNFPA has also advised its country offices to retain documentation for the physical count and to carry out subsequent reconciliation with Atlas records (paragraph 198).

26. During the formulation of the next medium-term strategic plan, UNFPA will, as suggested, define results that are role-based and fully attributable to UNFPA (paragraphs 110 and 128). Senior management has reiterated this and is following up regularly with geographical divisions and country offices on the need for accountability regarding narrative and financial reporting to donors (paragraph 132). The geographical divisions are monitoring compliance with the requirement for annual reports on performance results (paragraph 126).

27. The geographical divisions have worked extensively with country offices to ensure that appropriate action is taken with regard to the audit recommendations. UNFPA is recording and updating these actions in a comprehensive audit and recommendation database system. The Division for Oversight Services follows up on the monitoring of recommendations by the geographical divisions (paragraph 150). In addition, the Management Committee regularly reviews the status of implementation of the recommendations.

D. Relationship risk

28. This group includes recommendations relating to interactions between UNFPA and its implementing partners and related processes, as well as costing methodology on services provided for UNFPA.

29. There are nine recommendations in this group: four recommendations are of a high priority (paragraphs 59, 74, 79 and 81); four recommendations are of a medium priority (paragraphs 46, 51, 68 and 135); and one recommendation is of a low priority (paragraph 62). UNFPA has implemented one medium priority recommendation (paragraph 51). Implementation of the other recommendations is under way.

30. UNFPA has established a task force to deal with issues related to the national execution of programmes and projects and has sent reconciliation schedules of operating fund account balances to the majority of country offices. It has requested accounts examiners to continuously follow up in their respective regions (paragraph 46). UNFPA has also advised country offices to run ageing analysis reports to better monitor advances. In order to strengthen the accountability of UNFPA office managers, the Division for Management Services is issuing a checklist that includes the review of advances through Atlas reports. Each month, UNFPA will require country office managers to certify compliance with the checklist. At headquarters, the Management Committee regularly reviews the status of advances (paragraph 51). UNFPA is updating the relevant sections of its policies and procedures financial manual to reflect the revised terms of reference and the changes brought about by the implementation of the resource transfer modality (paragraph 68).

31. UNFPA has created a new field in the database maintained by the Division for Oversight Services to track the financial impact of the modified audit opinion from 2005 onwards (paragraph 79). The recommendation to disclose the impact of modified project audits in the financial statements requires further discussion and careful review in conjunction with UNDP, especially in view of issues such as materiality, synchronization of financial reports and differing fiscal years. The Division for Management Services is working with the Division for Oversight Services to define an appropriate mechanism to disclose the impact of modified project audits in the financial statements (paragraph 59). UNFPA notified country offices earlier than in previous years of its request for 2005 audit plans, to ensure that the audit process was initiated in a timely manner (paragraph 74). As for the appointing authority and the audit costs for project audits, for 2005, the information is included in 96 per cent of country offices and divisions and in all country offices except four (paragraphs 62 and 81).

32. With regard to services provided by UNDP, both standard and non-standard ad-hoc services are now processed through the Atlas billing module. Standard services continue to be charged according to the universal price list that was updated in 2006. Non-standard services (those that are not included in the universal price list) are priced locally, based on local hourly rates; they are to be negotiated on an ad-hoc basis between each concerned UNDP country office and UNFPA. As recommended by the Board of Auditors, UNDP and UNFPA piloted service-level agreements at the country level. UNFPA will use the results of the pilot to develop a generic contract template to be used by all country offices. At headquarters level, UNFPA has updated most of the service-level agreements (paragraph 135).

E. Technology and systems risk

33. This group includes recommendations relating to information systems management. There are two recommendations in this group (paragraphs 40 and 108); both are of a high priority. UNFPA has implemented one recommendation (paragraph 40) and has initiated implementation of the other recommendation.

34. UNFPA has implemented the material recommendations made during an external review of the Atlas software. UNFPA also created a task force to monitor internal control issues related to the software. Another positive action taken in this area has been the implementation of the audit trail feature on the Atlas software (paragraph 40). Regarding manual payments, UNFPA will continue to stress to UNFPA representatives that manual payments should not be made without first entering a voucher in Atlas. The monthly bank reconciliation now performed by UNDP will detect non-compliance. It should be noted, however, that the responsibility for recording manual payments rests mainly with the manager

of UNFPA bank accounts. UNFPA country offices are expected to monitor this process and to follow up with UNDP as necessary (paragraph 108).

## III. CONCLUSION

35. As part of its efforts to improve governance and accountability, the management of UNFPA ensures that all recommendations made by the United Nations Board of Auditors are implemented as soon as possible. UNFPA is also trying to anticipate potential accountability issues by strengthening risk management and its overall assurance process. UNFPA has implemented, or is in the process of implementing, all 42 recommendations made by the Board of Auditors, and has completed action on nine recommendations. Except for recommendations of an ongoing nature, UNFPA expects that it will implement most recommendations by March 2009.

## IV. RECOMMENDATION

36. **The Executive Board may wish to take note of the present report (DP/FPA/2007/1) and the further actions taken or planned in implementing the recommendations of the United Nations Board of Auditors for the biennium 2004-2005.**